Housing Iowa
Chapter 2

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Tax Credits 202

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Enterprise Community Investments

Fundamental Risk Factors in Tax Credit Transactions

- Structure the project to comply with Section 42 Requirements
- Key Factors:
  - development team knowledge of the tax credit
  - structuring of debt financing, acquisition, etc.
  - proper documentation of reservation, carryover allocation, 10% test, cost certification, 8609s, tax returns, etc.

Fundamental Risk Factors in Tax Credit Transactions

- Construct the project by Section 42 deadline
- Key factors:
  - Strength of development team and guarantors
  - Quality architectural/engineering plans
  - Feasibility of product
  - Competence, integrity, and financial capability of contractor (including bond/LC backing)

Fundamental Risk Factors in Tax Credit Transactions

- Lease up the project in time to meet minimum set-aside requirements, qualify all units for credits, and deliver credits on expected schedule
- Key factors:
  - Depth of market (demand) and position of project within market (supply)
  - Quality of product
  - Property management: marketing, income certifications

Fundamental Risk Factors in Tax Credit Transactions

- Avoid Defaults
- Key factors:
  - Market (ability of project to compete ongoing)
  - Leverage (level of must-pay debt)
  - Debt coverage ratio and underlying assumptions
  - Property management
  - Sponsor’s ongoing asset management/oversight

Thank You to Iowa Finance Authority for the opportunity to speak

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